

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE NAMAKWA DISTRICT MUNICIPALITY
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the accompanying financial statements of the Namakwa District Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Additional matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

9. As the annual report was not presented for audit purposes, I was not able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

10. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XXX to XXX and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

Presentation of information

12. The following criterion is relevant to the findings below:
- Performance against predetermined objectives is reported using the National Treasury guidelines.
13. Audit findings:
- The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as well as disclose the effectiveness of its performance in its service delivery budget implementation plan during the financial year, as required by section 40(1)(a) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) read with regulation 14(1)(a) of the Municipal Planning and Performance Management Regulations, 2001.
 - The municipality did not implement an adequate framework that described and represented how the municipality's cycle and processes of performance, monitoring, measurement, review and improvement would be conducted, organised and managed, as it did not relate to the municipality's employee performance management processes, as required by sections 38, 39, 40 and 41 of the MSA read with regulations 7(1), (2)(f) and 8 of the Municipal Planning and Performance Management Regulations, 2001.
 - Adequate measures taken to improve performance and reasons for deviations between planned and actual reported targets were not provided in the performance report, as

required in terms of section 46(1)(c) of the MSA. Furthermore, 23% of the reported targets, where improvement was required, were not explained adequately.

Usefulness of information

14. The following criteria are relevant to the findings below:

- **Relevance:** A clear and logical link exists between the objectives, outcomes, outputs, indicators and performance targets.
- **Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound.

15. Audit findings:

Reported information not consistent with planned objectives, indicators and targets (consistency)

- The municipality did not report on its performance against predetermined targets, which were consistent with the approved integrated development plan.

Planned and reported targets not specific (measurability)

- For the selected programmes, namely basic service delivery and infrastructure (KPA 2) and good governance and public participation (KPA 5), 49% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance.

Planned and reported targets not time bound (measurability)

- For the selected programmes, namely basic service delivery and infrastructure (KPA 2) and good governance and public participation (KPA 5), 32% of the planned and reported targets were not time bound in specifying the time period or deadline for delivery.

Planned and reported indicators not well defined (measurability and relevance)

- For the selected programmes, namely basic service delivery and infrastructure (KPA 2) and good governance and public participation (KPA 5), 59% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.

Reliability of information

16. The following criterion is relevant to the finding below:

- **Completeness:** All actual results and events that should have been recorded have been included in the annual performance report.

17. Audit finding:

Reported information not complete when compared to planned objectives, indicators and targets

- Reported indicators were not complete when compared to the planned indicators per the approved integrated development plan.

Compliance with laws and regulations

Strategic planning and performance management

18. The municipality did not appoint a performance audit committee, nor was another audit committee utilised as the performance audit committee, as required by regulation 14(2)(a) of the Municipal Planning and Performance Management Regulations, 2001.
19. The integrated development plan of the municipality did not include a financial plan that included a budgeted projection for at least three years, as required by section 26(h) of the MSA.

Annual financial statements, performance report and annual report

20. The annual performance report did not contain a comparison of the performance of the municipality and of each external service provider with development priorities, objectives and performance indicators set out in its integrated development plan, as required by section 46(1)(a) of the MSA.

Audit committee

21. The municipality did not establish an audit committee during the financial year, contrary to the requirements of section 166(1) of the MFMA.

Internal audit

22. The internal audit unit did not adequately advise the accounting officer and report to the audit committee on the implementation of the internal audit plan and matters relating to internal control, accounting procedures and practices, risk and risk management as well as compliance with the MFMA, the MSA and DoRA. Furthermore, the internal audit unit was not independent from the operational management structure of the municipality and did not perform its work in accordance with prescribed internal audit standards, contrary to the requirements of section 165(2) of the MFMA.

Procurement and contract management

23. The municipality did not publish the bid result of the winning bidders for all tenders on its website, contrary to regulation 23(c)(iii) of the Municipal Supply Chain Management Regulations.

Human resource management

24. The municipality did not establish a performance monitoring system for the evaluation of the performance of employees, contrary to the requirements of section 67(1)(d) of the MSA. The municipality did not have an approved selection and recruitment policy or a skills retention policy, contrary to the requirements of section 67(1)(a) of the MSA.

Revenue management

25. The accounting officer did not ensure that the municipality had an effective revenue-collection system, as no effective action had been taken for a greater part of the financial period to recover long-outstanding debtor accounts, contrary to the requirements of section 64(2)(a) of the MFMA.

INTERNAL CONTROL

26. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of

internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

27. A number of audit findings relating to material non-compliance with the provisions of the MFMA and the MSA were identified. The instances of non-compliance occurred due to the fact that the mayor and the accounting officer did not exercise oversight responsibility over reporting and compliance with laws and regulations. A direct contributing factor was the suspension of the municipal manager and the chief financial officer during the previous financial year, resulting in these oversight functions being vacant for a greater part of the financial period.

Financial and performance management

28. A number of audit findings were identified relating to inadequate formal controls over monthly controls, information technology (IT) systems as well as the completeness of the predetermined objectives set out in the integrated development plan and the annual performance report. Misstatements identified were due to the following:
- Lack of awareness and appropriate skills regarding IT systems.
 - The municipality did not have adequate key controls to address the systems of collation and disclosure of performance information, specifically relating to the completeness and consistency of the output of information.

Governance

29. The internal audit unit did not fulfil its responsibilities as set out in legislation and in accordance with accepted best practice and standards.
30. The municipality did not establish an audit committee that promoted independent accountability and service delivery.
31. The municipality developed a fraud prevention plan and a risk management plan, but these plans were not effectively implemented and monitored due to the absence of an oversight function.

Auditor-General

Kimberley

30 November 2011



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence